



U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410

September 15, 2003

Honorable Joseph E. Schmitz
Inspector General
U.S. Department of Defense
400 Army Navy Drive
Arlington, Virginia 22202-2884

Re: Letter of Comments, report on the External Quality Control Review of the Department of Defense's Office of Inspector General's Audit Organization

Dear Mr. Schmitz:

We have reviewed the system of quality control for the audit function of the Department of Defense (DoD), Office of Inspector General (OIG), in effect for the year ended March 31, 2003 and have issued our unqualified report thereon dated September 9, 2003. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting whether the OIG's internal quality control was designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency (PCIE) and was being complied with for the year reviewed to provide reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. We conducted our review in conformity with standards and guidelines established by the PCIE. Our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of the instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

As a result of our review, we have the following comments, which were considered in determining our opinion set forth in our report dated September 9, 2003. This letter does not change that report.

NOTEWORTHY ACCOMPLISHMENTS

Numerous positive audit practices were observed about the OIG audit organization. Most importantly, the audit staff showed a high level of professionalism and expertise. The audit staff displayed a thorough knowledge during discussions with us concerning the audits we reviewed,

audit procedures and policies, and the audit organization. There were noteworthy practices and controls instituted to help ensure audits were performed in accordance with professional standards.

OBSERVATIONS

Timely Supervisory Review of Work

The OIG's policies and procedures require that supervisors be involved and review work on an on-going basis throughout the audit. The working papers must contain documented evidence of supervisory review throughout the project and not just at the project end. We applied a 30-day review period as criteria for determining timeliness of supervisory review. On 4 of the 14 audits reviewed, our review showed workpapers either were not approved, not submitted for review, or reviewed untimely. Details are as follows:

- For one audit, our review of 142 work papers disclosed that 44 of the 142 work papers were either (1) not approved, (2) not submitted for review, or (3) reviewed untimely. Five of the 44 work papers had been submitted, but not approved; 20 had not been submitted for review; and 19 work papers were reviewed untimely.
- On the second audit, we found that 39 of 49 work papers supporting the audit were reviewed untimely. The reviews for the 39 work papers ranged from 35 to 259 days after completion and averaged 173 days. The audit was suspended for a portion of this time.
- For the third audit with issues involving supervision, we found 46 of 301 work papers were not approved timely.
- On the fourth audit, we found that 21 of 353 work papers were reviewed later than 30 days after the work paper was completed. The time elapsed between the prepared date and the reviewed date for the 21 work papers ranged from 41 to 144 days.

According to the supervisors involved, this occurred because either (1) the project manager was reassigned, (2) workpapers were not completed, or (3) supervisors were involved in other ongoing audits, which delayed their reviews to the end of the audit. Supervisory review of working papers is an integral part of the internal quality control system. Untimely review of working papers can result in unnecessary work completed by the auditor. When review is delayed until the end of the audit, there is a greater risk that problems with the audit work will not be identified until it is too late to correct. In addition, incomplete workpapers can result in incomplete documentation of the work performed to support significant conclusions and judgments.

Reports Were not Adequately Referenced

For every audit, the OIG's quality control policies and procedures require the referencing of factual data in audit reports to the supporting evidence in working papers. To help ensure the accuracy of draft and final reports, all statements of fact must be referenced to the supporting evidence in the working papers. Our review showed that 2 of 14 audits had either inaccurate cross-referencing of the report to the supporting work papers, factual information that was not cross-referenced, or changes specified during the independent referencing that were not included

in the final report.

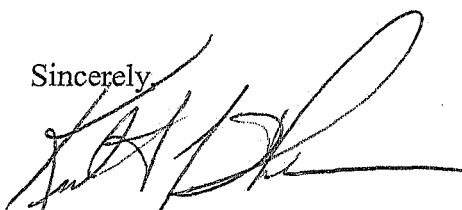
Recommendation:

The Office of Inspector General audit management should take appropriate actions such as conducting training sessions and emphasizing during future internal quality control reviews the areas of (a) timely supervision of audit work and (b) adequate referencing of audit reports.

A copy of your response to the report and letter of comments is provided as an enclosure.

I want to express our appreciation for the cooperation and courtesies extended by your office to the review team. The team received full cooperation from the audit staff.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. M. Donohue', written over a horizontal line.

Kenneth M. Donohue
Inspector General

Enclosure



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

AUG 18 2003

Mr. James A. Heist
Assistant Inspector General for Audit
U.S. Department of Housing and Urban Development
451 7th St., S.W.
Washington, D.C. 20410

Dear Mr. Heist:

This is in reply to your letter of August 7, 2003, which provided the draft opinion and letter of comments from your quality control review of the Office of the Inspector General of the Department of Defense.

We appreciate the in-depth review that your staff performed on our quality control function. The quality of the peer review team and their professionalism will help our organization continue to improve our quality control program. We also appreciate their positive comments on the numerous audit practices that we initiated during the past 2 years.

Your observations concerning the supervisory review process and report referencing are helpful. Moreover, we concur with your recommendations and plan to revise our training sessions and increase the emphasis of future internal quality control reviews to ensure that working papers are approved in a timelier manner and more accurately referenced to reports.

If you have any questions on our comments, please contact me or Mr. David A. Brinkman, Director for Audit Followup and Technical Support Directorate at 703-604-8905.

Sincerely,

A handwritten signature in dark ink, appearing to read "Francis E. Reardon", is positioned above the printed name.

Francis E. Reardon
Deputy Inspector General
for Auditing



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20410-4500

September 9, 2003

Honorable Joseph E. Schmitz
Inspector General
U.S. Department of Defense
400 Army Navy Drive
Arlington, Virginia 22202-2884

Dear Mr. Schmitz:

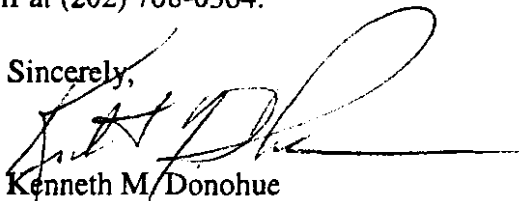
On July 3, 2003, my Office of Audit completed the review of the system of quality control for the audit function of the Department of Defense (DOD), Office of Inspector General (OIG), in effect for the year ended March 31, 2003. They conducted the review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). We tested compliance with the OIG's system of quality control to the extent we considered appropriate. These tests included a review of the audits identified in the enclosure.

In performing our review, we gave consideration to the PCIE policy statement on quality control and external reviews, dated February 2002. That statement indicates that an OIG's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. It also recognizes that the nature, extent and formality of an OIG's system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of the work and its organizational structure.

In our opinion, the system of quality control for the audit function of DOD/OIG in effect for the year ended March 31, 2003, has been designed in accordance with the PCIE quality standards and was being complied with for the year then ended to provided the OIG with reasonable assurance of material compliance with professional audit standards in the conduct of its audits. We are there issuing an unqualified opinion on your system of audit quality control. In addition, I have provided you a Letter of Comments, dated September 2, 2003, which identifies certain other matters that came to our attention. These matters do not affect our overall opinion.

If you have any questions, please feel free to call James A. Heist, Assistant Inspector General for Audit, or myself at (202) 708-0364.

Sincerely,


Kenneth M. Donohue
Inspector General

Enclosure

Review Scope and Methodology

We tested compliance with the Office of Inspector General's system of quality control to the extent we considered appropriate. These tests included a review of 12 of 115 performance audit reports issued during the September 30, 2002 and March 31, 2003, semiannual reporting periods. In addition, we reviewed 2 of 8 Fiscal Year 2002 financial statement audits and monitoring activities covering the financial statements that were performed under contract. We also reviewed the internal quality control reviews performed.

OIG Offices Reviewed

We visited the Arlington, Virginia office and in addition we reviewed audits performed by the Norfolk, Denver, and Cleveland field offices.

Audit Reports Reviewed

1. Accountability and Control of Material at the Corpus Christi Army Depot -- report # 2002-091 of 5/21/2002
2. Resource Sharing Between DOD and the Dept. of Veterans Affairs -- report # 2003-063, dated 3/14/2003
3. Certifications of the Reserve Component Automation System -- report # 2002-103 of 6/14/2002
4. Information Resource Management at the Army Aviation and Missile Command, report # 2003-002 of 10/03/2002
5. General and Flag Officer Quarters at Pearl Harbor, Hawaii, report # 2002-125 of 7/1/2002
6. Procedures for Selecting Contractor Personnel to Perform Maintenance on Army Aircraft in Bosnia, report # 2002-150 of 9/18/2002.
7. The Defense Security Service Cost Accounting System to Support Fee-For-Service, report #2002-115 of 6/24/2002
8. Independent Auditor's Report on the Dept of Defense Fiscal Year 2002 Agency-Wide Principal Financial Statements, report #2003-050 of 1/15/2003.
9. Allegation to the Defense Hotline on the Use of Funds by Navy Region Southeast, report # 2002-147 of 9/16/2002.
10. Audit of the Army Contract Audit Follow-up Process, report # D2002-6-009 of 9/18/2002
11. DoD Contractor Subcontracting With Historically Underutilized Business Zones Small Businesses, report # 2003-019 of 11/1/2002
12. Controls Over the Use and Protection of Social Security Numbers Within DoD, report # 2003-066 of 3/21/2003
13. Independent Auditor's Report on the Air Force General Funds FY 2002 Principal Financial Statements, report # 2003-041 of 1/6/2003.

**14. Government Information Security Reform Act Implementation:
Noncombatant Evacuation Operations Tracking System, report # 2002-093 of
5/23/2002**